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MARKET SEGMENT REPORT: FRESH F...

Restaurant Business

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MARCH 1, 1987

THE INDEPENDENT UNDER FIRE

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Restaurant Business

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INDEPENDENT UNDER [redacted] *A look at how independent operators across the country are coping—and surviving. In Houston, beset by a poor economy and a high unemployment rate, operators are lowering prices and concentrating on the basics. Boston, with the highest employment rate in the country, is enjoying an economic renaissance, but restaurant owners are having to come up with innovative solutions to a shrinking employee pool. And in Burbank, CA, one owner is trying to take on Domino's by forming a network of independent pizzerias.....* **107**

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RB INSIDER

South Weymouth, MA-based **The Ground Round, Inc.,** *now part of the worldwide manufacturing and retailing empire of Hanson Trust PLC, is turning around its operations* 26

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Wichita, KS-based **Pizza Hut, Inc.** *is turning some added attention to new product development and company services with the formation of a new concept department* 32

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REGIONAL REPORT

Midwest: Not Boom, Not Bust

BY RONA GINDIN

There's mixed news coming out of the nation's heartland. Major metropolitan areas such as Minneapolis, Kansas City, Des Moines, Chicago, and Indianapolis are experiencing slow, steady growth in economy, employment, and income.

But rural areas dependent on agriculture have likely "bottomed out," experts agree, although a quick recovery is not predicted. And sections of the Midwest reliant on farm equipment and steel are in trouble too.

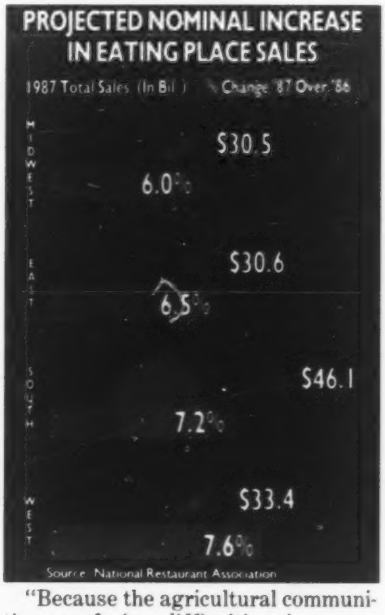
However, many industrial parts depend on a mix of businesses such as brewing, chemicals, electricity, and airplanes, and therefore remain healthy, says Jay Fairfield, an analyst with A.G. Edwards, Inc., St. Louis.

The Midwest consists of the East North Central region, including Illinois, Indiana, Michigan, Ohio, Wisconsin, where autos, steel, rubber, robotics, and farming are primary industries. The West North Central region encompassing Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota is the site of farming and farming equipment, and aerospace and defense industries.

RESTAURANT GROWTH. Overall, the Midwestern restaurant industry will show a six percent nominal sales increase this year over 1986, according to the National Restaurant Association (NRA). This is below nominal sales increases projected by the NRA for the East, 6.5 percent; the West, 7.6 percent; and the South, 7.2 percent. Some analysts, however, are forecasting a nominal sales increase for the Midwest as high as 7.5 percent.

A. G. Edwards' Jay Fairfield says it's difficult to tell how much 1987's sales increase will come from new restaurants and how much will represent gains for existing operations.

"Since it will be difficult to raise prices in this market," says Fairfield, "real growth of existing restaurants will likely range from slight losses of almost two percent to slight gains up to about two percent.



"Because the agricultural communities are facing difficulties, increases will come from the metropolitan areas," he says. "In cities such as St. Louis, Indianapolis, Chicago, Des Moines, Minneapolis, and Kansas City, overall business is strong."

KEY MIDWEST STATE. Illinois represents both the positive and negative growth trends of the Midwest. For Chicago and its suburbs, business is very healthy. "Chicago's growth and construction are benefitting the restaurant industry tremendously," says Andrew Kelly, president of the Illinois Restaurant Association.

And the state overall is projected to gain the most jobs, 376,000, between 1982 and 2000, according to Nestor E. Terleckyj, president of Washington, DC-based NPA Data Services, Inc.

Meanwhile, the industrial areas of Illinois dependent on steel, auto production, and farm equipment, have problems, says Kelly.

In the state of Minnesota, business is "not booming, not busting," says Henry Kristal, president of the Minnesota Restaurant Association and co-owner of St. Paul, MN-based Embers Restaurants, a 28-unit family restaurant chain with stores in five Midwestern states. Kristal projects that between 25 and 40 percent of the state's restaurants will likely close or change hands during 1987.

"Business is steady but marginal," notes Kristal. "Minnesota has restrictive legislation which may really hurt operators," he says. "Although restaurant sales levels are about the same in other Midwestern states as in Minnesota, the cost of doing business in these states is lower so more restaurants will probably survive."

MARGINAL POPULATION. In terms of population, the Midwest will show marginal gains through 2005, according to Woods & Poole Economics, Inc., Washington, DC. While population grows at a national annual average of one percent, each of the Midwest states will post population growth below that.

"Not many people are moving out, but the ones who do tend to be young, leaving behind people who are past child-bearing age," says Nestor Terleckyj. Restaurants can benefit from this increase in the number of childless couples, who spend more disposable income on eating out, he says.

ROCKY ECONOMIC ROAD. The Midwest will have another rocky year, predicts Steven Malin, an economist with The Conference Board, Inc., a New York-based research organization. Malin cautions that the trade imbalance could continue to hinder the ability of domestic heavy industries to compete with foreign companies.

Experts also predict the farm belt will continue to suffer because food prices are down due to a 1986 boom harvest. Although these lower prices are detrimental to local economies such as parts of the Midwest, they can help reduce food costs in restaurants.

The cities, meanwhile, won't likely attract hordes of new settlers, but population, employment, and economic indicators seem to point to a healthy ending to the decade.